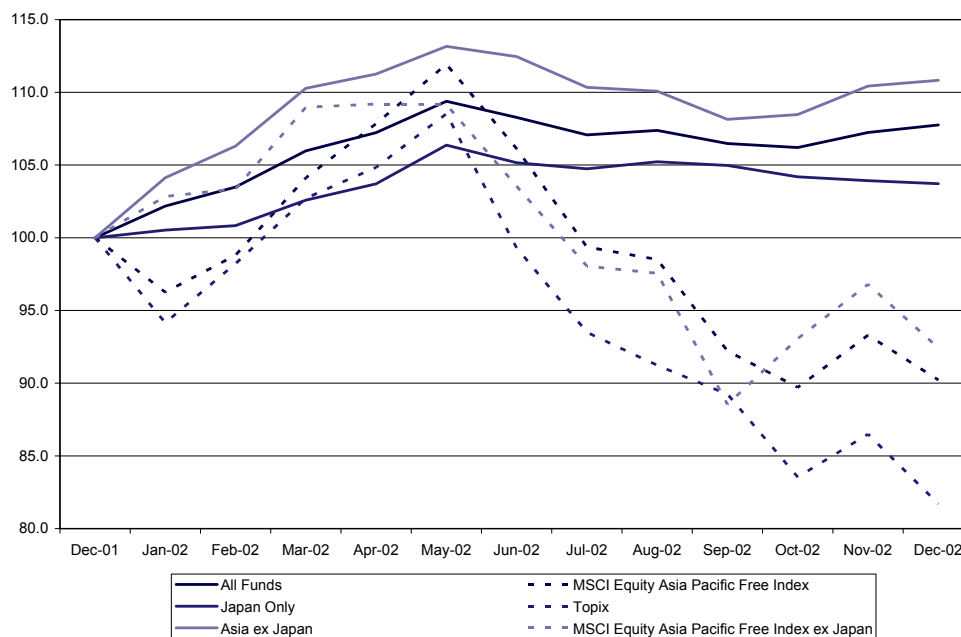


Performance

Asian hedge funds overall had a mediocre year, the ABN AMRO Eureka hedge Index was +5.0%, the index is a comprehensive register of all strategies and regions within Asia; defined as managers based anywhere in the world who have at least 60% of assets employed in markets ranging from Japan in the east, Pakistan in the west and Australasia and China to the south and north, respectively. The MSCI Asia Pacific Free Index was -9.8% while cash (three month US Treasury bill rate) is currently yielding 1.18%. The ABN AMRO Eureka hedge Japan Only Index was +0.5% while TOPIX was down -18.3%. The ABN AMRO Eureka hedge Asia ex Japan Index was the best performer, +9.6%.

Asian indices – 2002



Analysis of performance by strategy in 2002

Asian distressed debt funds performed the best of all Asian strategies; the reasons for this outperformance will be explained in the next section. CTAs were the second-best performers, following a global trend of outperformance by CTA funds. The relatively few macro and relative-value funds also did on the whole exceptionally well, returning more than 10% for each strategy. The trade on US dollar weakness worked exceptionally well for many macro fund managers, arbitrage opportunities in Japan helped relative-value funds. The weaknesses in long/short equity and multi-strategy funds were a drag on the overall performance of the ABN AMRO Eureka hedge indices; the two strategies are the largest component of each of the three indices. The performance range for equity long/short funds was tight between +10% to -7%; with +3.40% being the average.

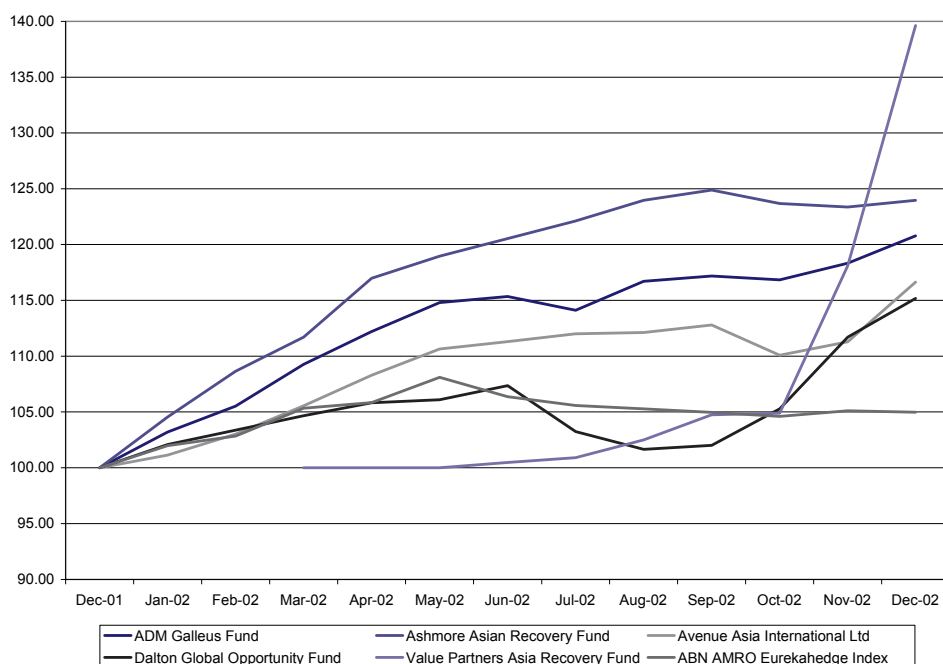
The convertible arbitrage strategy has not fully recovered from the drawdown the strategy suffered in early 2002, and the lack of new issues over the course of the year did not help. Many convertible arbitrage managers have shifted a portion of their portfolios into statistical arbitrage and distressed debt in order to increase returns. There is a general belief that the strategy will remain out of favour for at least another 12 months.

Trends in Asian Hedge Funds

| Strategy | Avg. Annualised Return | Avg. Annualised Standard Deviation | Avg. Maximum Drawdown |
|-----------------------|------------------------|------------------------------------|-----------------------|
| Convertible arbitrage | -0.23 | 4.57 | -5.03 |
| CTA | 15.61 | 13.06 | -6.46 |
| Distressed debt | 26.53 | 9.80 | -2.00 |
| Fixed income | 13.82 | 2.65 | -0.55 |
| Long / short equities | 3.40 | 9.65 | -8.30 |
| Macro | 15.36 | 16.18 | -10.37 |
| Multi-strategy | 2.71 | 8.37 | -8.12 |
| Relative-value | 12.84 | 11.66 | -4.93 |

The best performer – Asia distressed debt funds

The best Asian hedge fund performers over the past 12 months have been the distressed debt funds. Even though these managers do not short, opportunities in falling equity markets have been excellent. With Asian banks awash with cash and looking for assets, the local banks have increasingly become involved in corporate financial restructuring, providing companies with the necessary liquidity to refinance. This restructuring has been immensely beneficial to distressed debt players, who at the same time are able to find a reasonable new supply of distressed notes from European and Japanese banks looking to dispose of Asian assets. Over the past twelve months there has also been an increasing willingness among company management to work with debt holders in restructuring their businesses. This was not the case three years ago; and this closer relationship between management and the debt holders has allowed effective restructuring to accelerate. Finally, demand for Asian distressed debt has increased among global emerging market funds, which has helped the established players.

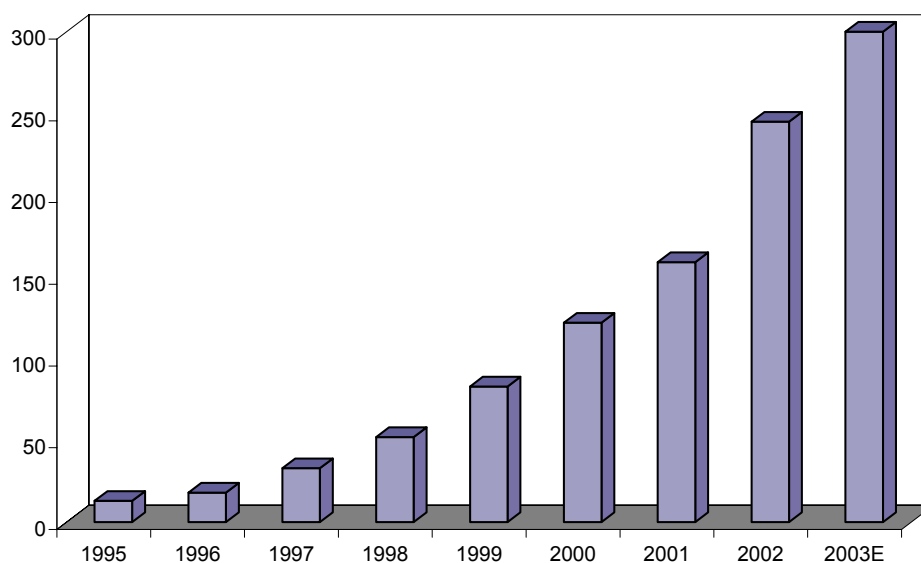


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Key trends for 2003 in Asian hedge funds

We believe that the Asian hedge fund industry is still in its infancy. The universe is currently just more than 250 hedge funds, excluding CTAs. Dedicated Asian hedge fund assets grew by 40% in 2002 from US \$14 billion in January 2002 to US \$20 billion by December 2002. The number of funds increased from 160 in January 2002 to 250 by the year-end. We currently have 80 funds/managers on our watch-list who will likely launch during 2003, most of whom will list in our directory during the year. If we assume there will be 30 current funds that become obsolete during the year (12% of the total funds at the end of December 2002), we expect the number of funds to grow to 300 by January 2004. The number of assets dedicated to Asia are expected to grow to US \$25-28 billion (increase of 25-40%) by the year-end.

Growth in single-manager Asian-strategy hedge funds



Prospective future growth after 2003

As implied earlier, we believe that there is much room for the industry to expand. Asia Pacific markets represent 14% of the world's market capitalisation. The number of hedge funds that do not have Asian-exclusive strategies is around 5,000, with approximately \$550 billion under management. Thus, Asia-strategy hedge funds comprise less than 5% of the global hedge funds universe by number and value.

| | Number | Assets US\$bn |
|--|--------|---------------|
| Hedge funds – Asia | 250 | 20 |
| Hedge funds – worldwide | 5,250 | 570 |
| Asian hedge funds as percentage of total | 4.8% | 3.5% |

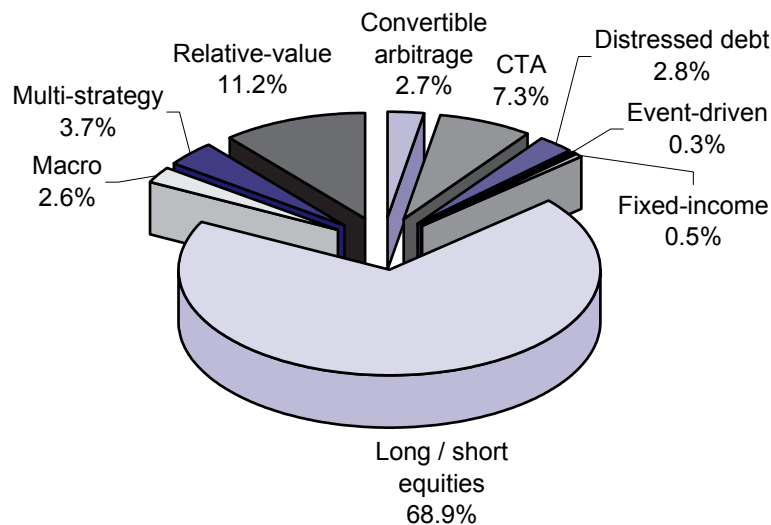
We believe, for a number of reasons, that the disconnect between Asia's relative market capitalisation and representation in hedge funds will disappear in the next five years. First, it appears that the short-selling rules are liberalising in Asia outside of Japan while tightening in Europe and the United States. Regulators in markets like South Korea and Taiwan where it was illegal for foreigners to short sell individual stocks 12 months ago, appear to be loosening these regulations. Also the number of local capital allocators has increased over the past year and will likely rise dramatically over the coming five years. With the decision last year to allow funds of funds to register in Hong Kong and Singapore, we believe that there could potentially be a strong retail demand for Asian fund of funds products based in the region. As most allocators to Asian hedge funds are currently in Europe or the United States, local institutional funds of funds could provide a much-needed boost in capital.

Strategy breakdown for Asian hedge funds

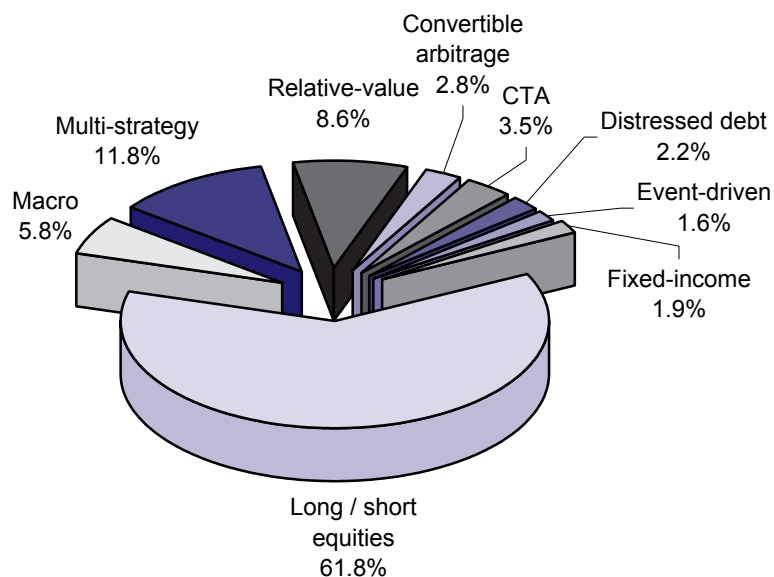
The assets allocated to Asian hedge funds are still principally going to long/short equity funds; this has been the case since the start of the industry in Asia in the late 1980s. However, the number of equity long/short funds should decrease as a percentage of the universe if a greater number of proprietary traders begin to launch multi-strategy arbitrage funds. As the risk/return balance between a proprietary trading career and launching a boutique hedge fund begins to shift to the latter, the number of arbitrage funds may increase substantially over the coming years.

In the end, allocation comes down to performance. The outstanding returns by distressed debt funds over the past 18 months have increased the number and value of those funds by 50%.

Number of Asian hedge funds by strategy*



Asian hedge fund strategies by assets*



*as at 1 March 2003

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The Asian hedge fund dilemma

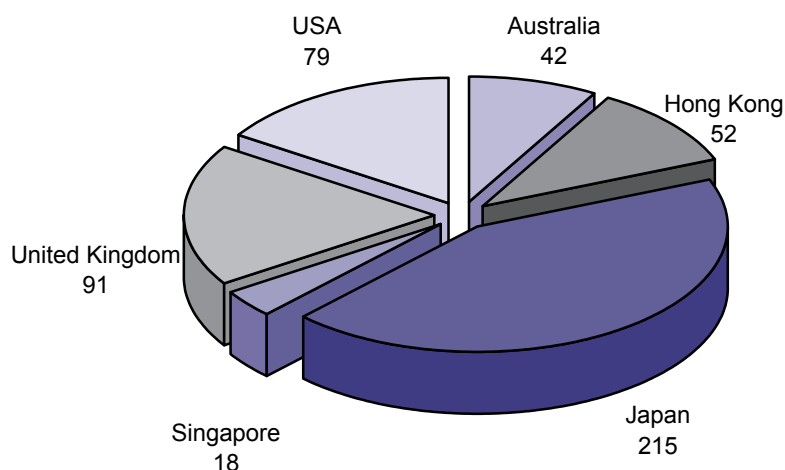
The biggest complaint among managers is still the lack of available capital. Over 40% of the funds in our universe have under US \$25 million, the break-even point for most management companies. Those that are based in Asia outside of Japan will have a low cost base, but usually cannot survive for more than 2 years with less than \$25 million in total assets. Many smaller hedge funds will be hitting that 2-year mark during this year; so look for a larger shakeout of Asian hedge funds than the ten that occurred in 2002.

The frustration for most of the small boutique managers is that the inflows to Asian hedge funds are favouring a limited number of funds; 90% of the money is going to less than 20 funds, which are mainly from large institutions (JF Funds, Gartmore, GAM and Henderson) or hedge funds where the lead manager was previously employed at a large hedge fund (Soros, Tiger or Kingdon). Regarding the latter, the manager can usually raise assets of a critical mass on day one.

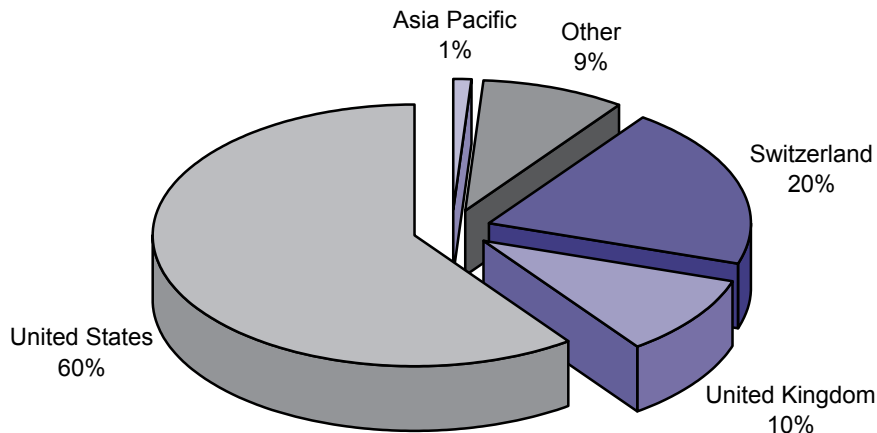
The other problem is that to effectively raise money, the management team needs to be travelling constantly to see prospective investors; if there is only one manager for the firm, time away from trading is a serious detriment to the fund's performance. Ideally, a hedge fund boutique needs a secondary "manager" who will double as marketer or a highly-regarded, full-time marketer who understands the fund's trading strategy. Investors want to speak with someone who understands the fund's investment philosophy and how trades are placed, not a marketer whose expertise is outside of finance.

Lastly, being closer to the investor still counts: 90% of money dedicated to Asian hedge fund strategies is coming from North America and Europe. We have found that those managers based in New York and London raise money faster and have more assets than their brethren in Hong Kong or Singapore. The exception is the relatively few managers based in Tokyo (26% of all Japan-only funds) who have raised on average US \$215 million, mainly because of good performance (the ABN Amro EurekaHedge Japan index is +25% since the end of 1999) and their strong connections within the investor universe from previous positions at Soros or Tiger.

**Average asset size of funds (US\$m)
(where manager is based)**



Source of funds for Asian-strategy hedge funds



Start-up trends 2003

Success stories such as Ward Ferry in Hong Kong, Speedwell in Tokyo and EN Benton in London are, we believe, spurring increased start-up activity. As stated previously, the change of the risk/reward ratio between an investment banking career and running a boutique hedge fund has shifted towards the latter; this should add to the number of managers coming from proprietary desks and mutual funds to start their own hedge funds.

Institutional firms like Martin Currie and JF Funds, who successfully launched their first general Asian hedge fund product in 2002, are now beginning to launch their second and third hedge funds, this time country-specific. We are also seeing an increase in single-country hedge funds for South Korea, India and Greater China from new boutique firms. A number of CTAs based in Asia have emerged in the last 18 months with the bull market in commodity prices. It appears more and more that commodities are an excellent way to play the China growth story.

On the surface there would appear that significant capacity is available for the investor; however our analysis suggests a lack of quality capacity. The managers with previous hedge fund experience, who launch their own fund, will raise around \$200 million at launch and immediately close to new investors. Managers who do not have the requisite hedge fund experience but show good performance over 12 months will receive capacity recommendations from initial investors that force an early soft closure. This has put greater pressure on allocators to make investment decisions earlier than they would previously had to have made them. We believe that the combination of the best relative returns from Asian hedge funds, a larger universe and the occurrence of pre-eminent funds closing earlier than before will force hedge fund allocators around the world to devote more resources to the Asian hedge fund universe.